

BABSON CAPITAL GLOBAL SHORT DURATION HIGH YIELD FUND

Form N-CSRS

September 06, 2013

As filed with the Securities and Exchange Commission on September 6, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22562

Babson Capital Global Short Duration High Yield Fund
(Exact name of registrant as specified in charter)

550 South Tryon Street, Charlotte, NC 28202
(Address of principal executive offices) (Zip code)

Janice M. Bishop
Secretary and Chief Legal Officer
c/o Babson Capital Management, LLC
Independence Wharf
470 Atlantic Avenue
Boston, MA 02210
(Name and address of agent for service)

704-805-7200
Registrant's telephone number, including area code

Date of fiscal year end: December 31

Date of reporting period: June 30, 2013

Item 1. Reports to Stockholders.

Babson Capital Global Short Duration High Yield Fund
c / o Babson Capital Management LLC
550 South Tryon St.
Charlotte, NC 28202
704.805.7200
<http://www.BabsonCapital.com/bgh>

ADVISER

Babson Capital Management LLC
550 South Tryon St.
Suite 3300
Charlotte, NC 28202

SUB-ADVISOR

Babson Capital Global Advisors Limited
61 Aldwych
London, UK
WC2B 4AE

COUNSEL TO THE FUND

Ropes & Gray LLP
Prudential Tower
800 Boylston Street
Boston, Massachusetts 02110

CUSTODIAN

US Bank
MK-WI-S302
1555 N. River Center Drive
Milwaukee, WI 53212

TRANSFER AGENT & REGISTRAR

U.S. Bancorp Fund Services, LLC
615 E. Michigan St.
Milwaukee, WI 53202

FUND ADMINISTRATION/ACCOUNTING

U.S. Bancorp Fund Services, LLC
615 E. Michigan St.
Milwaukee, WI 53202

PROXY VOTING POLICIES & PROCEDURES

The Trustees of Babson Capital Global Short Duration High Yield Fund (the “Fund”) have delegated proxy voting responsibilities relating to the voting of securities held by the Fund to Babson Capital Management LLC (“Babson Capital”). A description of Babson Capital’s proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 1-866-399-1516; (2) on the Fund’s website at <http://www.BabsonCapital.com/bgh>; and (3) on the U.S. Securities and Exchange Commission’s (“SEC”) website at <http://www.sec.gov>.

FORM N-Q

The Fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. This information is available (i) on the SEC’s website at <http://www.sec.gov>; and (ii) at the SEC’s Public Reference Room in Washington, DC (which information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available on the Trust’s website at <http://www.BabsonCapital.com/bgh> or upon request by calling, toll-free, 1-866-399-1516.

OFFICERS OF THE FUND

Russell Morrison
President and Principal
Executive Officer

Patrick Hoefling
Chief Financial Officer and
Principal Financial and
Accounting Officer

Andrew Lennon
Treasurer

Michael Freno
Vice President

Sean Feeley
Vice President

Scott Roth
Vice President

Melissa LaGrant
Chief Compliance Officer

Janice Bishop
Secretary/Chief Legal Officer

Michele Manha
Assistant Secretary

BABSON CAPITAL GLOBAL SHORT DURATION HIGH YIELD FUND

Babson Capital Global Short Duration High Yield Fund is a closed-end investment company, first offered to the public in 2012, whose shares are traded on the New York Stock Exchange.

INVESTMENT OBJECTIVE & POLICY

Babson Capital Global Short Duration High Yield Fund (the “Fund”) was organized as a business trust under the laws of the Commonwealth of Massachusetts on May 20, 2011, and commenced operations on October 26, 2012. The Fund is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company with its own investment objective. The Fund’s common shares are listed on the New York Stock Exchange under the symbol “BGH”.

The Fund’s primary investment objective is to seek as high a level of current income as the Adviser (as defined herein) determines is consistent with capital preservation. The Fund seeks capital appreciation as a secondary investment objective when consistent with its primary investment objective. There can be no assurance that the Fund will achieve its investment objectives.

The Fund will seek to take advantage of inefficiencies between geographies, primarily the North American and Western European high yield bond and loan markets and within capital structures between bonds and loans. For example, the Fund will seek to take advantage of differences in pricing between bonds and loans of an issuer denominated in U.S. dollars and substantially similar bonds and loans of the same issuer denominated in Euros, potentially allowing the Fund to achieve a higher relative return for the same credit risk exposure.

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

DEAR FELLOW SHAREHOLDERS,

It is our pleasure to provide you with the 2013 Semi-Annual Report for the Babson Capital Global Short Duration High Yield Fund (the “Fund”). We continue to believe our Global High Yield Investments Group at Babson Capital has a unique capability to offer investors a portfolio consisting of attractive yield opportunities in the global high yield market. We believe the recent performance of the Fund is a testament to the strength and collaboration of our global investment team and our expertise in the global markets. The global high yield asset class provided investors an adequate risk-reward premium during the first half of 2013 and we expect this trend to continue into the back half of the year.

We believe the global nature of the portfolio, primarily focusing on North American and Western European credits, provides investors with additional benefits compared to a U.S. only portfolio such as higher quality, increased yield, and lower duration credits. By leveraging our experienced team of investment professionals in the U.S. and U.K., we are able to primarily focus on North American and Western European credits with a fundamental bottom-up research approach and provide investors with what we believe to be our best relative value opportunities across jurisdictions, industries, credit quality and within the corporate capital structure. We continue to believe this approach and our seasoned team of investment professionals should provide investors with the opportunity for an attractive dividend yield in the future.

Market Review

The first half of 2013 had a similar story to 2012, with investors searching for yield in the current low interest rate environment. This caused yields in both the U.S. and European markets to approach near all-time lows during the first quarter as investors entered the high yield market looking for attractive yields. Global high yield bond issuance also reached record highs mainly due to refinancing activity as companies took advantage of issuing lower coupon debt to refinance higher coupon payments. For the most part, the first quarter of 2013, could be characterized by healthy corporate earnings, accommodative central bank policies and modest economic improvement that helped support the global high yield asset class.

In the second quarter though, in light of concerns regarding the Federal Reserve’s tapering plans and the eventual increase of interest rates, volatility increased in the global high yield markets. In the U.S. high yield market, record outflows from retail investors put significant pressure on the market. With treasury rates stabilizing and more tempered enthusiasm from the Fed about growth, the high yield market rallied towards the tail end of the quarter. The Western European market experienced similar macro-economic headwinds in the second quarter as well. Market volatility increased and investor sentiment swayed mainly due to mixed economic reports and speculation regarding future U.S. Federal Reserve actions, Japan’s economic stimulus program and concerns over liquidity matters in China.

While yields fluctuated during the second quarter of 2013, we continue to see what we believe are attractive spreads for the current risk in the market despite the recent yield movements. The global fundamental picture remains healthy, with strong balance sheets, historically high EBTIDA margins, and prudent deployment of capital. Issuance volumes from M&A related activity remain at low levels compared to pre-financial crisis levels. We also expect that currently low default rates will continue for the foreseeable future.

We continue to expect modest volatility in the near-term as the markets sort out ever-changing views of global economic growth and central bank policies. However, the Fund continues to emphasize a fundamental approach to credit selection in order to identify good quality credits in the global high yield bond and loan markets. As a result, we believe the Fund will continue to offer attractive opportunities to our shareholders, particularly in light of the recent

spike in yields.

Babson Capital Global Short Duration High Yield Fund Overview and Performance

The Fund ended June with a portfolio of 139 issuers, which is slightly more than the 121 issuers at the end of last year. A majority of the issuers are still domiciled in the U.S. (64.8%) followed by the U.K. (13.6%) and Canada (3.0%) - see Country Composition chart on page [4]. Over the course of the first half of the year, the U.K. market experienced the largest increase in exposure primarily due to attractive opportunities in the secondary market. The secondary market in Europe has proved to be an attractive market to pick up compelling opportunities that supplement the yield profile of the portfolio. In addition, these opportunities may help improve the credit profile of the Fund and reduce duration at the same time, as the European market is generally one notch higher in ratings and has shorter durations, on average, when compared to the U.S. market.

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

As of June month-end, the Fund was well positioned from a quality standpoint: 72.1% B-rated, 12.1% BB-rated, and 11.3% CCC-rated, with almost 60% of the portfolio consisting of secured obligations. Within the CCC-rated and below category, the majority of these assets are senior secured 2nd lien loans. Based on our experience within the current market environment, we believe these senior secured 2nd lien loan assets offer a tremendous amount of value and being senior secured offers additional protection to investors.

The portfolio composition gravitated more towards global high yield bonds at the end of the second quarter. The Fund sold lower yielding bank loans and redeployed the proceeds into higher yielding bonds that had traded down as a result of the recent technical pressure on the global high yield bond market from mutual fund outflows.

The Fund paid a dividend payment of \$0.1677 per share during each of the past six months comprised of net investment income. Based on the Fund's initial public offering price of \$25.00 per share, the distribution represents an annualized yield of 8.05% per share. Assets acquired through leverage, which represented 21% as of June 30, 2013, were accretive to net investment income and benefitted shareholders. We expect to stay in this range for the foreseeable future and do not anticipate any need to increase the level of leverage in the portfolio based on the current market environment. From an NAV performance standpoint, the Fund increased +4.26% year-to-date.

In Conclusion

It is still our opinion that the Central Banks' recent comments about maintaining low interest rates over the near term will help sustain solid performance in the global high yield market. At the same time, we are aware that the credit markets remain subject to volatility due to the unsettled political and economic situation in Europe, domestic policy concerns, and low global growth rates. In general, we believe global high yield credit fundamentals are likely to remain relatively stable, following significant balance sheet improvements over the last three years. We also expect global default rates to continue to remain below their historical averages.

We believe that our bottom-up fundamental approach to investing has allowed us to build a solid portfolio of our best ideas covering the entire global high yield market over the past 6 months. Thus far, the Fund has performed as expected, even during the most recent period of market volatility, and we believe the Fund will continue to offer an attractive dividend to our shareholders through the end of 2013.

From all of us at Babson Capital Management LLC, we appreciate your continued support for the Fund and our Global High Yield Investments Group.

Sincerely,

Russell Morrison

President and Principal Executive Officer

Babson Capital Global Short Duration High Yield Fund

Cautionary Notice: Certain statements contained in this report may be "forward looking" statements. Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date in which they are made and which reflect management's current estimates, projections, expectations or beliefs, and which are subject

to risks and uncertainties that may cause actual results to differ materially. These statements are subject to change at any time based upon economic, market or other conditions and may not be relied upon as investment advice or an indication of the Trust's trading intent. References to specific securities are not recommendations of such securities, and may not be representative of the Fund's current or future investments. We undertake no obligation to publicly update forward looking statements, whether as a result of new information, future events, or otherwise.

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

* Percentage of assets are expressed by market value and may vary over time. The percentages shown above represent a percentage of the Fund's invested assets as of June 30, 2013.

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Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

STATEMENT OF ASSETS AND LIABILITIES (UNAUDITED)

	June 30, 2013
Assets	
Investments, at fair value (cost \$603,851,929)	\$ 604,344,571
Cash	11,165,780
Foreign currency, at fair value (cost \$5,599,334)	5,580,483
Receivable for investments sold	17,404,046
Interest receivable	11,246,316
Unrealized appreciation on forward foreign exchange contracts	46,814
Prepaid expenses and other assets	28,315
Total assets	649,816,325
Liabilities	
Payable for investments purchased	19,877,562
Payable to adviser	533,911
Dividend payable	3,363,701
Accrued expenses and other liabilities	486,600
Note payable	138,000,000
Total liabilities	162,261,774
Total net assets	\$ 487,554,551
Net Assets	
Common stock, \$0.00001 par value; 20,057,849 shares issued and outstanding (unlimited shares authorized)	\$ 201
Additional paid-in capital	477,890,815
Undistributed net investment income	401,164
Accumulated net realized gain	8,720,155
Net unrealized appreciation	542,216
Total net assets	\$ 487,554,551
Net asset value per share	\$ 24.31

See accompanying Notes to Financial Statements

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

STATEMENT OF OPERATIONS (UNAUDITED)

	Period from January 1, 2013 through June 30, 2013
Investment Income	
Interest income	\$ 25,230,493
Total investment income	25,230,493
Operating Expenses	
Advisory fees	3,129,533
Administrator fees	930,177
Interest expense	776,334
Directors' fees	146,173
Professional fees	73,917
Printing and mailing expense	43,122
Registration fees	14,876
Other operating expenses	756
Total operating expenses	5,114,888
Net investment income	20,115,605
Realized and Unrealized Gains (Losses) on Investments	
Net realized gain on investments	5,315,817
Net realized gain on forward foreign exchange contracts	2,681,571
Net realized gain on foreign currency and translation	419,947
Net realized gain on investments	8,417,335
Net unrealized depreciation of investments	(10,868,157)
Net unrealized appreciation of forward foreign exchange contracts	2,758,044
Net unrealized depreciation of foreign currency and translation	(20,590)
Net unrealized depreciation on investments	(8,130,703)
Net realized and unrealized gains on investments	286,632
Net increase in net assets resulting from operations	\$ 20,402,237

See accompanying Notes to Financial Statements

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

STATEMENT OF CASH FLOWS (UNAUDITED)

	Period from January 1, 2013 through June 30, 2012
Reconciliation of net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities	
Net increase in net assets applicable to common stockholders resulting from operations	\$ 20,402,237
Adjustments to reconcile net increase in net assets applicable to common stockholders resulting from operations to net cash used in operating activities:	
Purchases of long-term investments	(228,602,127)
Proceeds from sales of long-term investments	203,373,381
Purchases of foreign currency, net	448,365
Forward currency exchange contracts, net	(2,758,043)
Net unrealized depreciation	10,878,470
Net realized gain	(5,978,383)
Amortization and accretion	615,304
Changes in operating assets and liabilities:	
Increase in interest receivable	(2,567,213)
Decrease in prepaid expenses and other assets	(8,655)
Increase in receivable for investments sold	(15,371,110)
Decrease in payable for investments purchased	(21,335,447)
Decrease in payable to Adviser	(308,183)
Decrease in accrued expenses and other liabilities	27,830
Net cash used in operating activities	(41,183,574)
Cash Flows From Financing Activities	
Advances from note payable	38,000,000
Distributions paid to common stockholders	(19,850,097)
Net cash provided by financing activities	18,149,903
Net change in cash	(23,033,671)
Cash--beginning of period	34,199,451
Cash--end of period	\$ 11,165,780
Non-Cash Financing Activities	
Reinvestment of distributions by common stockholders in additional common shares	\$ 324,847

(1) Commencement of operations.

See accompanying Notes to Financial Statements

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)

	Period from January 1, 2013 through June 30, 2013	Period from October 26, 2012 (1) through December 31, 2012
Operations		
Net investment income	\$ 20,115,605	\$ 3,668,210
Net realized gain on investments	8,417,335	458,814
Net unrealized depreciation on investments	(8,130,703)	8,672,919
Net increase in net assets resulting from operations	20,402,237	12,799,943
Dividends to Common Shareholders		
Net investment income	(20,177,140)	(3,361,505)
Total dividends to common shareholders	(20,177,140)	(3,361,505)
Capital Share Transactions		
Net proceeds from sale of shares	-	477,466,104 (2)
Issuance of 13,099 common shares from reinvestment of distributions to stockholders	324,847	-
Net increase in net assets capital stock transactions	324,847	477,466,104
Total increase in net assets	549,944	486,904,542
Net Assets		
Beginning of period	487,004,607	100,065
End of period (includes undistributed net investment income of 401,164)	\$ 487,554,551	\$ 487,004,607

(1) Commencement of operations.

(2) Proceeds from sale of shares of \$501,013,750 net of sales load paid and offering costs of \$23,547,646.

See accompanying Notes to Financial Statements

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

FINANCIAL HIGHLIGHTS (UNAUDITED)

	Period From January 1, 2013 through June 30, 2013		Period From October 26, 2012 (1) through December 31, 2012	
Per Common Share Data (2)				
Net asset value, beginning of period	\$	24.30		23.82 (3)
Income from investment operations:				
Net investment income		1.01		0.18
Net realized and unrealized gains on investments		0.01		0.47
Total decrease from investment operations		1.02		0.65
Less distributions to common stockholders:				
Net investment income		(1.01))	(0.17)
Total distributions to common stockholders		(1.01))	(0.17)
Net asset value, end of period	\$	24.31	\$	24.30
Per common share market value, end of period	\$	22.95	\$	23.77
Total investment return based on net asset value (2)(4)		4.26	%	2.69 %
Total investment return based on market value (2)(4)		0.58	%	(4.27) %
Supplemental Data and Ratios				
Net assets, end of period (000's)	\$	487,555	\$	487,005
Ratio of expenses to average net assets(5)		2.07	%	1.85 %
Ratio of net investment income to average net assets(5)		8.15	%	4.70 %
Portfolio turnover rate(2)		33.21	%	4.74 %

(1) Commencement of operations.

(2) Not annualized.

(3) Net asset value at the beginning of the period reflects the deduction of the sales load and offering costs of \$1.18 per share paid by the shareholder from the \$25.00 offering price.

(4) Total investment return calculation assumes reinvestment of dividends at actual prices pursuant to the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(5) Annualized for periods less than one full year.

See accompanying Notes to Financial Statements

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

SCHEDULE OF INVESTMENTS (UNAUDITED)

June 30, 2013

	Effective Interest Rate ‡	Due Date	Principal	Cost	Fair Value
Fixed Income — 123.95%*:					
Bank Loans — 20.77%*:					
Beverage, Food and Tobacco — 0.34%*:					
Performance Food Group Company	6.25 %	11/30/2019	1,678,736	\$ 1,670,349	\$ 1,661,949
Total Beverage, Food and Tobacco			1,678,736	1,670,349	1,661,949
Broadcasting and Entertainment — 1.46%*:					
Deluxe Entertainment Services Group, Inc.					
	8.75	7/3/2017	5,452,390	5,254,043	5,270,662
TWCC Holding Corp.	7.00	12/11/2020	1,822,860	1,804,632	1,831,975
Total Broadcasting and Entertainment			7,275,250	7,058,675	7,102,637
Buildings and Real Estate — 0.79%*:					
Tomkins Air Distribution	9.25	5/11/2020	3,773,513	3,716,929	3,877,285
Total Buildings and Real Estate			3,773,513	3,716,929	3,877,285
Chemicals, Plastics and Rubber — 2.25%*:					
Cytec Monarch	8.25	3/20/2020	6,000,000	6,176,127	6,000,000
Pinnacle Operating Corp.	11.50	5/13/2019	4,856,269	4,659,755	4,953,394
Total Chemicals, Plastics and Rubber			10,856,269	10,835,882	10,953,394
Diversified/Conglomerate Manufacturing — 1.67%*:					
Allflex Holdings, Inc.	8.00	6/11/2020	2,232,322	2,209,999	2,230,938
Alliance Laundry Systems LLC	9.50	11/30/2019	1,728,930	1,711,655	1,752,702
Northern Tool & Equipment Company, Inc.	7.00	12/6/2018	4,135,714	4,053,511	4,156,393
Total Diversified/Conglomerate Manufacturing			8,096,966	7,975,165	8,140,033
Diversified/Conglomerate Service — 2.41%*:					
Endurance International Group Inc.	6.25	10/18/2017	5,970,000	5,910,319	5,992,388
Redprarie Corporation	6.75	12/14/2018	2,985,000	2,928,031	2,993,716

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Redprarie Corporation	11.25	12/14/2019	2,702,244	2,650,308	2,783,311
Total Diversified/Conglomerate Service			11,657,244	11,488,658	11,769,415
Diversified Natural Resources, Precious Metals and Minerals — 0.73%*:					
Osmose Holdings, Inc.	4.75	5/2/2018	3,598,426	3,562,455	3,587,920
Total Diversified Natural Resources, Precious Metals and Minerals			3,598,426	3,562,455	3,587,920
Electronics — 1.58%*:					
Kronos, Inc.	9.75	4/26/2020	7,500,000	7,425,012	7,687,500
Total Electronics			7,500,000	7,425,012	7,687,500
Finance — 1.49%*:					
Confie Seguros Holding	10.25	5/8/2019	1,880,257	1,859,599	1,899,059
Cunningham Lindsey Group, Inc.	9.25	4/18/2020	2,338,636	2,373,235	2,362,023
Transfirst Holdings Inc.	11.00	6/30/2018	1,004,072	975,474	1,021,644
Wall Street Systems Inc.	9.25	4/24/2020	1,980,000	1,980,000	1,987,425
Total Finance			7,202,965	7,188,308	7,270,151

Babson Capital Global Short Duration High Yield Fund June 2013 Semi-Annual Report

SCHEDULE OF INVESTMENTS (UNAUDITED) (CONTINUED)

June 30, 2013

	Effective Interest Rate ‡	Due Date	Principal	Cost	Fair Value
Bank Loans (Continued)					
Healthcare, Education and Childcare — 3.02%*:					
Air Medical Group Holdings	6.50	6/20/2018	2,244,874	2,222,438	2,267,322
Gentiva Health Services Inc.	6.50	8/17/2016	3,934,426	3,888,139	3,929,508
PRA International	10.50	11/30/2019	1,844,428	1,811,515	1,867,484
Sage Products Holdings Iii, LLC	9.25	5/31/2020	3,325,292	3,275,431	3,383,484
TriZetto Group	8.50	3/27/2019	3,325,000	3,309,161	3,291,750
Total Healthcare, Education and Childcare			14,674,020	14,506,684	14,739,548
Mining, Steel, Iron and Non-Precious Metals — 0.66%*:					
Boomerang Tube, LLC	11.00	10/8/2017	3,256,298	3,227,675	3,207,454
Total Mining, Steel, Iron and Non-Precious Metals			3,256,298	3,227,675	3,207,454
Oil and Gas — 2.36%*:					
Chesapeake Energy Corporation	5.75	12/2/2017	2,000,000	1,968,532	2,024,580
NFR Energy LLC	8.75	12/31/2018	7,008,901	7,099,685	6,973,856
Rice Energy	8.50	9/26/2018	2,503,689	2,501,345	2,497,430
Total Oil and Gas			11,512,590	11,569,562	11,495,866
Retail Store — 2.01%*:					
BJ's Wholesale Club, Inc.	9.75	3/13/2020	4,000,000	4,118,769	4,070,000
FleetPride	9.25	5/8/2020	3,000,000	2,942,212	2,842,500
Smart & Final Holdings Corp.	10.50	11/8/2020	2,871,795	2,786,096	2,886,154
Total Retail Store			9,871,795	9,847,077	9,798,654
Total Bank Loans			100,954,072	100,072,431	101,291,806
Corporate Bonds — 103.18%*:					

Aerospace and Defense —

0.50%*:

Ducommun Inc.	9.75	%	7/15/2018	2,230,000	\$ 2,395,448	\$ 2,436,275
Total Aerospace and Defense						